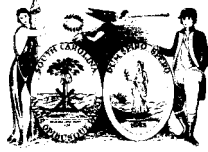


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

January 27, 2003

Ms. Carol Disbro, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

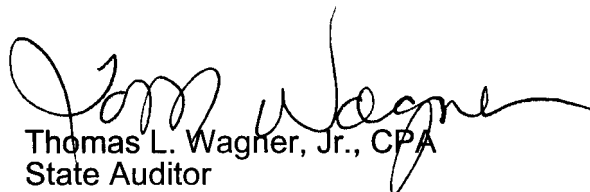
Re: AC# 3-MMM-J8 – Magnolia Manor – Moncks Corner, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

MAGNOLIA MANOR – MONCKS CORNER, INC.

MONCKS CORNER, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MMM-J8**

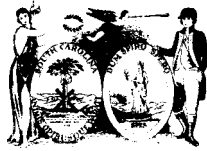
**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA**

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 11, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Moncks Corner, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This management of Magnolia Manor – Moncks Corner, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Moncks Corner, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Moncks Corner, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 11, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR – MONCKS CORNER, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-MMM-J8

10/01/99-
09/30/00

Interim Reimbursement Rate (1)	\$81.55
Adjusted Reimbursement Rate	<u>78.31</u>
Decrease in Reimbursement Rate	\$ <u><u>3.24</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MAGNOLIA MANOR – MONCK'S CORNER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MMM-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$33.69	\$50.88	
Dietary		8.78	9.69	
Laundry/Housekeeping/Maintenance		<u>6.97</u>	<u>8.24</u>	
Subtotal	<u>\$4.82</u>	49.44	68.81	\$49.44
Administration & Medical Records	<u>\$2.90</u>	<u>8.66</u>	<u>11.56</u>	<u>8.66</u>
Subtotal		58.10	<u>\$80.37</u>	58.10
<u>Costs Not Subject to Standards:</u>				
Utilities		2.10		2.10
Special Services		.90		.90
Medical Supplies & Oxygen		2.92		2.92
Taxes and Insurance		1.23		1.23
Legal Fees		<u>.04</u>		<u>.04</u>
TOTAL		<u>\$65.29</u>		65.29
Inflation Factor (3.00%)				1.96
Cost of Capital				6.78
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.29
Cost Incentive				4.82
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.36)
CNA Add-On				.75
Nurse Aide Staffing Add-on				<u>1.78</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$78.31</u>

MAGNOLIA MANOR – MONCKS CORNER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MMM-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,633,105	\$ 216 (5)	\$ 3,751 (5) 39,523 (6) 12,743 (8)	\$1,577,304
Dietary	410,829	386 (5)	-	411,215
Laundry	71,622	2 (5)	-	71,624
Housekeeping	196,217	6 (5)	-	196,223
Maintenance	67,743	69 (5)	9,135 (3)	58,677
Administration & Medical Records	485,458	6,710 (5) 39,523 (6)	34,144 (2) 39,485 (4) 4,105 (5) 48,410 (7)	405,547
Utilities	98,158	-	-	98,158
Special Services	54,848	468 (5)	2,473 (7) 10,539 (8)	42,304
Medical Supplies & Oxygen	131,987	4,573 (8)	-	136,560
Taxes and Insurance	57,478	-	-	57,478
Legal Fees	2,088	-	-	2,088
Cost of Capital	311,935	9,445 (1) <u>5,099 (9)</u>	8,966 (7)	317,513
Subtotal	3,521,468	66,497	213,274	3,374,691

MAGNOLIA MANOR – MONCKS CORNER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MMM-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Ancillary	74,470	-	-	74,470
Non-Allowable	454,652	34,144 (2) 9,135 (3) 39,485 (4) 59,849 (7) <u>18,709 (8)</u>	9,445 (1) 1 (5) 5,099 (9) <u> </u>	601,429
Total Operating Expenses	<u>\$4,050,590</u>	<u>\$227,819</u>	<u>\$227,819</u>	<u>\$4,050,590</u>
Total Patient Days	<u>46,821</u>	<u>-</u>	<u>-</u>	<u>46,821</u>
Total Beds	<u>132</u>			

MAGNOLIA MANOR – MONCKS CORNER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MMM-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$273,761	
	Cost of Capital	9,445	
	Accumulated Depreciation		\$149,643
	Nonallowable		9,445
	Other Equity		124,118
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	34,144	
	Administration		34,144
	To disallow rental payments on a capital lease HIM-15-1, Section 110B		
3	Nonallowable	9,135	
	Maintenance		9,135
	To disallow storage fees not related to patient care HIM-15-1, Section 2102.3		
4	Nonallowable	39,485	
	Administration		39,485
	To adjust Premiere fees HIM-15-1, Section 2304		
5	Restorative	216	
	Dietary	386	
	Laundry	2	
	Housekeeping	6	
	Maintenance	69	
	Medical Records	6,710	
	Special Services	468	
	Nursing		3,751
	Administration		4,105
	Nonallowable		1
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR – MONCK'S CORNER, INC.

Adjustment Report

Cost Report Period Ended September 30, 1998

AC# 3-MMM-J8

TOTAL ADJUSTMENTS

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MAGNOLIA MANOR – MONCKS CORNER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MMM-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>132</u>
Deemed Asset Value	4,637,160
Improvements Since 1981	312,151
Accumulated Depreciation at 09/30/99	<u>(917,438)</u>
Deemed Depreciated Value	4,031,873
Market Rate of Return	<u>.063</u>
Total Annual Return	254,008
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	254,008
Depreciation Expense	66,563
Amortization Expense	198
Capital Related Income Offsets	(3,256)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	317,513
Total Patient Days	<u>46,821</u>
Cost of Capital Per Diem	\$ <u><u>6.78</u></u>

MAGNOLIA MANOR – MONCKS CORNER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MMM-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 7.52
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>11.51</u>
Reimbursable Cost of Capital Per Diem	\$ 6.78
Cost of Capital Per Diem	<u>6.78</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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